

Central Intelligence Agency



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 DIRECTORATE OF INTELLIGENCE

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Malaysia: A New Activist Leadership

Summary

The triennial election for the leadership of the United Malays National Organization (UMNO) ended 28 May with a resounding victory for Prime Minister Mahathir Mohamad. Almost without exception, those who had been critical of the Prime Minister over the past year lost their positions, including six cabinet members, two state chief ministers, and three deputy ministers. Mahathir's new government, we believe, will strongly support his activist leadership, an approach that will continue to emphasize ties with other East Asian nations. While this policy is likely to produce occasional frictions with the US, we expect Malaysia to continue to look to Washington to counterbalance Soviet and Chinese influence in Southeast Asia.

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From Rough Seas to Smooth Sailing

Only six months before the election, Mahathir was under strong criticism from the traditional wing of the party. Already unhappy with Mahathir's blunt, outspoken style, his departure from the traditional Malay practice of consensus rule, and his support of young, well-educated party members, the party's "old guard" last fall tried to challenge Mahathir's leadership by opposing his proposal to limit the powers of the king.

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 Analysis. Information available as of 27 August 1984 was used in
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Under the constitution, Malaysia's king--chosen every five years from the country's nine sultans--is granted authority to:

- Veto parliamentary legislation.
- Declare an emergency without consulting the Prime Minister.
- Refuse to dissolve Parliament even if the Prime Minister recommends it.
- Appoint a prime minister of his own choosing.

Mahathir's amendment would have ended the need for royal assent on legislation and required the king to obtain cabinet consent before declaring an emergency. The sultans advised the king to oppose the amendment, and the old guard took the side of the sultans. After four months of controversy, Mahathir was forced to compromise. In return for a modified amendment that allowed for a two-thirds vote of Parliament to override a royal veto on a bill, Mahathir dropped the other provisions. [REDACTED]

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The constitutional controversy more sharply divided the party into "old versus new" factions.* The old guard renewed its complaints that Mahathir was not looking out for the interests of ethnic Malays (bumiputras). Austerity measures he instituted to curb the budget deficit and the rapid growth of the foreign debt, for example, slowed progress under the New Economic Policy (NEP)--a program aimed at increasing the bumiputra share of corporate ownership. Mahathir also came under fire for initially resisting investigation of a scandal concerning a subsidiary of Bank Bumiputra, which was set up to further the interests of ethnic Malays. And, according to press reports, he was heavily criticized for defying tradition by identifying one of his strong supporters, Musa Hitam, as his choice for the elected post of party deputy president. [REDACTED]

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But Mahathir weathered the storms. The bank scandal became more of a political liability to Finance Minister Razaleigh Hamzah, a spokesman of the old guard, who had close ties to many of the banking and Finance Ministry officials implicated. At the same time, Mahathir went on the offensive to weaken the conservatives' claims that he had ignored Islam and ethnic Malay rights. He supported a new agricultural policy designed to benefit the small landholders, a predominantly bumiputra sector, and increased pressure on commercial banks to issue government-directed loans to bumiputra small traders. Mahathir also advocated a policy of population increase to give Malaysia a

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sufficient consumer base on which to build industry, but which, if successful, would also strengthen the ethnic Malay population relative to other ethnic communities. [redacted]

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An Election Mandate

Candidates aligned with Mahathir were swept along with his rising popularity. Incumbent Musa defeated Razaleigh in a bitter campaign for the deputy presidency--a race termed by the press as one of the fiercest and most divisive in UMNO's 38-year history. Abdullah Badawi, a protege of Musa, was elected to a vice presidential post, and Anwar Ibrahim, who was persuaded by Mahathir to join mainstream Malaysian politics in 1982, was re-elected as an ex-officio vice president. [redacted]

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Mahathir's victory within UMNO's 20-member Supreme Council was almost unanimous. The US Embassy reports that the Council, with 10 new members voted in, now has only one member who is not closely associated with either Mahathir or Musa. Moreover, the council membership is, on average, six and a half years younger than its predecessor, with only three members over age 45, a change political commentators see as a resounding vote against the "patriarchal" old guard and the Malay royalty. [redacted]

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Cabinet Shuffle Echoes the Election Results

To cement the shift from the old to the new, Mahathir shuffled his cabinet on 14 July.* But although he moved his opponents to less influential positions, for the most part he did not force them out of the government. This olive branch extended to the UMNO traditionalist wing, according to the US Embassy, will ensure that disaffection from that quarter will not shift support from hotly contested districts to opposition parties. For example, former Finance Minister Razaleigh--who wrested political control of Kelantan State from the opposition Parti Islam Sa-Malaysia in 1978--was given the less influential Trade and Industry Ministry although he was not reappointed to the Supreme Council. Foreign Minister Ghazali is out of the cabinet but has been given the status of "special envoy" for handling ad hoc assignments. [redacted]

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Both Mahathir and Musa retained their cabinet portfolios, Defense and Home Affairs, respectively, and other cabinet posts went to their proteges. The reshuffle thus puts Mahathir firmly in control of the key portfolios. While Rithauddeen will head the important Foreign Affairs Ministry, his lack of standing within UMNO will stifle his ability to challenge Mahathir's leadership or policies. Razaleigh's demotion to the Trade and

*UMNO cabinet posts are traditionally held by upper echelon party members, namely vice presidents and Supreme Council members. [redacted]

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Industry Ministry and the hint of scandal concerning the bank affair, we believe, will sharply curtail his influence within the cabinet. [redacted]

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Mahathir's Activist Policies Continue

We expect the new leaders to bring a fresh activism to Mahathir's domestic and foreign policy as he forges ahead--with party and government leadership solidly backing him--on his plan for Malaysia. Speaking to newsmen after the elections, Musa stated that the government will now concentrate on economic development programs, emphasizing heavy industry, resource-based development, government financial assistance and joint ventures in sectors where private business appears reluctant to invest. [redacted]

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Mahathir advocates greater control of national resources and has taken several steps to enable local businesses to become more actively involved in oil production and exploration. An exploration and production-sharing agreement signed with French-owned Elf Aquitaine in 1982 required that company to take on Petronas Carigali, the exploration arm of the state oil company, as a joint partner along with two private Malaysian firms. Kuala Lumpur has also acquired majority interest in a number of foreign-owned corporations doing business in Malaysia through the Malay National Trust, which was created under the NEP to hold equity for ethnic Malays. To date most of the government's targets have been British firms controlling large reserves of rubber and palm oil. [redacted]

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We expect to see a greater government role in other industries as well. According to US Embassy officials, Mahathir believes capital-intensive development based on import substitution is the best course of development for Malaysia in an era of labor shortages, rising protectionism in industrialized countries, and increasing demands by local activists to develop economically depressed regions within Malaysia. In the past year, government officials have begun to refer to the nation's heavy industrial strategy as "Malaysia, Incorporated," which we believe reflects their feeling that the government has a major role to play in the predominantly private enterprise economy. According to government officials, the approach is to include streamlining the state enterprise sector through the divestiture of inefficient firms and establishing joint ventures with private companies in high-priority sectors of the economy. [redacted]

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That same activism spills over into Malaysia's international and regional relationships. Since he took power in 1981, Mahathir has been restructuring foreign policy, giving it a nationalistic and Eastward-looking cast. He has loosened traditional Western ties in favor of ones with East Asia, which Mahathir sees as more relevant to Malaysian interests. In mid-July, Malaysia assumed the chairmanship of ASEAN's standing committee, and we expect Mahathir to use that position to support

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the approach he calls his "Look East" policy. In recent months, for example, he has advocated the establishment of a Western Pacific Basin Economic Community to encourage closer economic integration between ASEAN, Australia, and Japan--a plan Mahathir hopes would lessen Malaysia's trade dependence on the West. []

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Mahathir may also look to his ties to the Islamic world to quell domestic criticism that he lacks concern for Islamic issues. A member of the Organization of the Islamic Conference, Malaysia has been involved in the efforts of the Islamic Peace Committee to mediate the conflict between Iran and Iraq, and Kuala Lumpur has been vehemently opposed to any relocation of the US Embassy in Israel to Jerusalem. Mahathir may also see the late July visit of PLO Leader Yassir Arafat as cementing Malaysia's position as a staunch supporter of the PLO. []

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Implications for the US

This activism will continue to result in occasional strains in US-Malaysian relations. In the past, Mahathir has never hesitated to criticize the US on policies that he felt were detrimental to Malaysian or Third World interests. These disputes have included the sale of US Government tin stockpile reserves, the US resignation from UNESCO, and the US position on the Palestinian question. More recently, during Secretary Shultz's visit in June, Mahathir voiced his objections not only to US arms sales to Beijing, but to any policy that advances Chinese economic strength. []

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Washington and Kuala Lumpur may also come into conflict during the coming UN General Assembly session over Malaysia's proposal to establish a special committee to address the current system of government over Antarctica. While agreeing with the objectives of the Antarctica Treaty--continued peaceful use of that region, its nonmilitarization and nonnuclearization, protection of its environment and delicate ecosystems, and promotion of scientific research--Malaysia believes Antarctica is the "common heritage of mankind" and requires a truly universal regime committed to serving the interests of the entire international community. []

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Despite these areas of contention, Mahathir will continue to work toward a good working relationship with the US, which he sees as the only credible defense against Soviet and Vietnamese ambition in Southeast Asia. Malaysia remains supportive of both a US military presence in the region and closer security cooperation. According to US Embassy reports, a US-Malaysian military meeting held last July augurs well for the growth of a military relationship that will include training assistance and joint exercises. During his recent visit to New Zealand, moreover, Mahathir expressed support for the ANZUS Defense Treaty. Mahathir also will continue to look to the US for

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[redacted]

investment funds, and he recently proposed liberalizing the regulations that restrict foreign ownership in export companies that sell locally manufactured products overseas. [redacted]

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AnnexMalaysia's National Front

The National Front (Barisan Nasional) is Malaysia's ruling coalition, composed mainly of ethnic parties and dominated by the United Malays National Organization. It was formed in 1974 by grafting opposition parties on to the Alliance--the then ruling coalition of the United Malays National Organization, the Malaysian Chinese Association, and the Malaysian Indian Congress. A multiracial coalition, it was established to provide for the widest possible base in government. The National Front's component parties are:

United Malays National Organization (UMNO)
Malaysian Chinese Association (MCA)
Malaysian Indian Congress (MIC)
Sarawak United People's Party (SUPP)
Partai Pesaka Bumiputera Bersatu (PPBB)
Sarawak National Party (SNAP)
United Sabah National Organization (USNO)
Berjaya
Berjasa
Gerakan Rakyat Malaysia
People's Progressive Party (PPP)

The main opposition parties to the National Front are:

Democratic Action Party (DAP)
Parti Islam Sa-Malaysia (PAS)
Socialist Democratic Party (SDP)

In the 1982 General Election, the National Front won 132 of the 154 parliamentary seats. The party breakdown for these seats was: UMNO 70, MCA 24, MIC 4, Gerakan 5, Berjaya 10, SUPP 5, SNAP 6 and PPBB 8.

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AnnexMalaysia's Cabinet Shuffle, July 1984

Portfolio	Previous Cabinet	Current Cabinet
Defense	Mahathir Mohamad	Mahathir Mohamad
Home Affairs	Musa Hitam	Musa Hitam
Foreign Affairs	Ghazali Shafie	Ahmad Rithauddeen
Finance	Razaleigh Hamzah	Daim Zainuddin
Trade & Industry	Ahmad Rithauddeen	Razaleigh Hamzah
Agriculture	Manan Othman	Anwar Ibrahim
Education	Sulaiman Daud	Abdullah Badawi
Culture Youth & Sports	Anwar Ibrahim	Sulaiman Daud
Land & Regional Development	Rais Yatim	Adib Adam
Information	Adib Adam	Rais Yatim

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